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WESTERN DISTRICT OF WASHINGTON  
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UNITED STATES DISTRICT COURT, WESTERN DISTRICT OF WASHINGTON  
AT SEATTLE

JUNE ROBINSON, by her attorney in fact,  
LYNNE POLIQUIN, Individually and on  
Behalf of all Others Similarly Situated,

Plaintiffs,

v.

WASHINGTON MUTUAL, INC., WM  
TRUST I, WM TRUST II, WM STRATEGIC  
ASSET MANAGEMENT PORTFOLIOS,  
LLC, WM FINANCIAL SERVICES, INC.,  
WM ADVISORS, INC., WM FUNDS  
DISTRIBUTOR, INC., EDGE ASSET  
MANAGEMENT, INC., PRINCIPAL  
FINANCIAL GROUP, INC., PRINCIPAL  
INVESTORS FUND, INC., PRINCIPAL  
FUNDS DISTRIBUTOR, INC.,

Defendants.

No.

**C 08-1251** *mjp*

CLASS ACTION COMPLAINT FOR  
VIOLATION OF THE FEDERAL  
SECURITIES LAWS

**JURY TRIAL DEMANDED**



08-CV-01251-CMP

Plaintiff Lynne Poliquin as attorney in fact for June Robinson ("Plaintiffs"), by and through counsel, allege the following based upon the investigation of counsel, which included, inter alia, a review of United States Securities and Exchange Commission ("SEC") filings, other regulatory filings, reports, and advisories, press releases, and media reports about Washington Mutual, Inc., ("WAMU, Inc.") and Principal Financial Group, Inc. ("Principal") and their related entities also named herein as defendants. Plaintiffs believe that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

CLASS ACTION COMPLAINT FOR VIOLATION OF THE  
FEDERAL SECURITIES LAWS - 1  
Case No.



HAGENS BERMAN  
SOBOL SHAPIRO LLP

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ORIGINAL

## I. INTRODUCTION

1. This is a federal class action that seeks to recover damages under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act")<sup>1</sup> for defendants' failure to disclose payments by the WM Group of Funds'<sup>2</sup> investment advisor to broker/dealers selling the WM Group of Funds' (the "WAMU Funds") as required by law. Such undisclosed payments were part of a comprehensive "steering" program devised by defendants' highest management that was intended to, and did, compromise the objectivity of broker/dealers in their dealing with customers and created insurmountable, undisclosed conflicts of interest.

2. Defendants WM Trust I, WM Trust II, and WM Strategic Asset Management Portfolios, LLC (collectively the "Registrants") are the issuers of the WAMU Funds. Each year during the relevant time period, the Registrants jointly filed a registration statement with the SEC that failed to disclose the above payments and resulting conflicts of interest.

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<sup>1</sup> Plaintiffs allege violations of Section 11 of the Securities Act (15 U.S.C. § 77k, *material misrepresentation or omission in registration statement*) against the Registrants and Principal Investors Fund; Section 12(a) of the Securities Act (15 U.S.C. § 77(l), *untrue statement or omission in prospectus*) against the Registrants, the WAMU Distributor, WMFS and Principal Defendants; and Section 15 of the Securities Act (15 U.S.C. § 77o, *control person liability Securities Act*) against WAMU, Inc. and WAMU Advisor. Plaintiffs also allege violations of Section 10(b) of the Exchange Act (15 U.S.C. § 78j(b)) and Rule 10b-5 (17 C.F.R. § 240.10b-5, *manipulative / deceptive artifice to defraud - false / misleading statement*) by the Registrants and Principal Investors Fund; and violations of Section 10(b) and Rule 10b-10 promulgated thereunder (17 C.F.R. § 240.10b-10, *failure by dealer to disclose remuneration*) against WMFS; and violations of Section 20(a) of the Exchange Act (15 U.S.C. § 78t, *control person liability Exchange Act*), by WAMU, Inc., the WAMU Advisor, and WAMU Distributor.

<sup>2</sup> **Error! Main Document Only.** The WAMU Funds, as described in this complaint are: Money Market, Tax-Exempt Money Market, U.S. Government Securities, Income, High Yield, Tax-Exempt Bond, REIT, Small Cap Value, Equity Income, Growth & Income, West Coast Equity, Mid Cap Stock, California Money, Short Term Income, California Municipal, California Insured Intermediate Municipal, Growth, International Growth, Small Cap Growth, Strategic Growth, Conservative Growth, Balanced, Conservative Balanced, and Flexible Income.



3. Each month during the relevant time period, Plaintiffs and the Class<sup>3</sup> paid “management fees” that were debited from their investment principal in the WAMU Funds to the Funds’ investment advisor, defendant WM Advisors, Inc. (the “WAMU Advisor”). Such “management fees” were ostensibly to compensate the WAMU Advisor for its expertise in making investment decisions for the WAMU Funds, and provide value to Plaintiffs and the Class by increasing investment returns. Undisclosed to Plaintiffs and the Class, from at least March 1, 2000 through January 2007, greater than fifty percent of such “management fees” were then diverted from the WAMU Advisor to all broker/dealers (including defendant WM Mutual Financial Services, Inc., *i.e.*, “Brokers”) to sell those WAMU Funds most profitable to the Advisor.

4. The WAMU Advisor annually paid each respective Broker an undisclosed “Advisor Paid Fee” calculated as 75 basis points (0.75 percent) of such WAMU Funds’ assets sold/managed by the particular Broker. Specifically, each Broker was paid 75 basis points (“BP”) of such WAMU Fund assets sold in a particular year, plus a 75 BP residual commission of the *market value* of all such WAMU Fund assets sold in previous years. The Advisor Paid Fee was paid to Brokers *in addition to* and *separate from* an ongoing 25 BP Rule 12b-1<sup>4</sup> commission. The resulting incentive was enormous and created undisclosed material conflicts of interest for the Registrants, the WAMU Advisor, and Brokers selling the WAMU Funds.

5. The existence of the Advisor Paid Fee was highly material. For example, in fiscal year 2004 alone, the WAMU Advisor paid Brokers approximately \$67,000,000 in Advisor Paid

<sup>3</sup> As detailed in paragraph 86 of this Complaint, the Class is defined as: All persons or entities that purchased or otherwise acquired shares, units or like interests in any of the WAMU Funds (including through the reinvestment of Fund dividends), within the applicable statute of limitations, or such other class, classes or periods of time as the Court deems appropriate.

<sup>4</sup> A “12b-1 fee” is an extra fee charged mutual fund investors for marketing and selling fund shares, including compensating brokers and paying for advertising. 12b-1 fees are authorized by SEC Rule 12b-1, which provides that an investment company may “engage[] directly or indirectly in financing any activity which is primarily intended to result in the sale of shares” **only** pursuant to a Rule 12b-1 plan. 17 C.F.R. § 270.12b-1.



1 Fees for which Plaintiffs and the Class received no benefit. If not improperly deducted from the  
 2 WAMU Funds, the money representing the Advisor Paid Fee would have remained in the  
 3 WAMU Funds' respective investment pools to grow and compound over time. Regardless of  
 4 whether the WAMU Funds increased or decreased in value, Plaintiffs and the Class' investment  
 5 principal was continuously drained to pay conflicted Brokers the Advisor Paid Fee.

6 6. The Registrants' deceived Plaintiffs and the Class into believing that the  
 7 "management fees" paid to the WAMU Advisor were for actual investment advice or similar  
 8 valuable services. In fact, such fees were merely a cover to funnel the Advisor Paid Fees to  
 9 incurably biased Brokers. Absent the hundreds of millions of dollars in Advisor Paid Fees,  
 10 Plaintiffs and the Class' total amount of "management fees" deducted from their investment, and  
 11 thus the resulting diminution of the WAMU Funds' Net Asset Value ("NAV"), would have been  
 12 substantially less.

13 7. In addition to the Advisor Paid Fee, the Registrants' relevant Prospectuses and  
 14 statements of additional information ("SAI") failed to disclose that the WAMU Advisor and/or  
 15 defendant WM Funds Distributor, Inc. (the "WAMU Distributor") paid Brokers to place the  
 16 WAMU Funds on "preferred list(s)" of mutual funds. These "preferred list(s)" caused Brokers  
 17 to principally recommend to clients only those listed funds, regardless of their appropriateness or  
 18 the availability of superior alternatives.

19 8. The undisclosed Advisor Paid Fee and "preferred list(s)" (jointly the "Steering  
 20 Programs") caused Brokers to give predetermined, biased recommendations to the detriment of  
 21 Plaintiffs and the Class. The Registrants' hid the existence and true nature of the Steering  
 22 Programs, knowing that if the truth were revealed, no reasonable investor would invest in the  
 23 WAMU Funds.

24 9. While promoting the WAMU Funds to Plaintiffs and the Class, Brokers  
 25 (including defendant WM Financial Services, Inc., the "WMFS") benefitting from the Steering  
 26 Programs represented them as being better than other funds available. Plaintiffs and the Class

CLASS ACTION COMPLAINT FOR VIOLATION OF THE  
 FEDERAL SECURITIES LAWS - 4  
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1 were led to believe that Brokers were recommending the WAMU Funds based on objective  
 2 criteria indicating that such Funds would perform better than other investment alternatives.  
 3 However, Brokers' advice and services relative to the WAMU Funds was neither objective nor  
 4 its basis properly disclosed.

5 10. The Registrants' annual Prospectuses from, at least, 2000 to 2005<sup>5</sup> completely  
 6 failed to disclose that "management fees" deducted from all WAMU Funds were used to pay  
 7 Brokers the Advisor Paid Fee. The Registrants' 2000 through at least, 2005 Prospectuses also  
 8 failed to disclose that "preferred lists" existed and were similarly used to steer Plaintiffs and the  
 9 Class into the WAMU Funds. The relevant Prospectuses provided inadequate, fragmentary and  
 10 incomplete disclosure, representing only that unspecified compensation "may," "from time to  
 11 time" be made to Brokers. In truth, the WAMU Advisor and Distributor had *already* entered  
 12 into formulated, specific, negotiated arrangements with Brokers providing for payment of the  
 13 Advisor Paid Fee and use of "preferred list(s)."

14 11. WAMU's practices as described herein were particularly egregious given the  
 15 nature of clients that were defrauded. A typical mutual fund investor is an unmarried, middle-  
 16 class individual in his or her forties with a median household income of \$55,000. Approximately  
 17 98% of mutual fund shareholders state their investments constitute their long-term savings and  
 18 about 77% cite retirement savings as their primary financial goal.<sup>6</sup> **A 1% annual fee, by way of**  
 19 **example, reduces an ending account balance by 17% on an investment held for 20 years.**<sup>7</sup>  
 20 The Registrants duty to state *all* facts necessary to make their affirmative statements not  
 21  
 22

23 <sup>5</sup> The relevant prospectuses had effective dates of March 1, 2000; March 1, 2001; March 1,  
 24 2002; March 1, 2003; March 1, 2004, and March 1, 2005 (collectively the "Prospectuses").

<sup>6</sup> David J. Carter, *Mutual Fund Board and Shareholder Action*, 3 VILL. J. & INV. MGM'T at 8.

25 <sup>7</sup> *Testimony of Arthur Levitt, Chairman U.S. Securities and Exchange Commission, before*  
 26 *House Subcommittee on Finance and Hazardous Materials, Committee on Commerce,*  
*Concerning Transparency in the United States Debt Market and Mutual Fund Fees and*  
*Expenses*, Sept. 29, 1998, available at 1998 WL 717068 at 7.



misleading was accordingly all the more compelling because the mutual fund market requires very clear disclosure understandable to the layman.

12. The SEC has long recognized that partial or non-disclosure of incentive arrangements with Brokers for the sale of select mutual funds create conflicts of interest and violate the anti-fraud provisions of the federal securities laws.<sup>8</sup> The Deputy Director of the SEC's Division of Enforcement recently stated that "undisclosed receipt of revenue sharing payments from a select group of mutual fund families create[s] a conflict of interest. When customers purchase mutual funds, they should be told about the *full nature and extent* of any conflict of interest that may affect the transaction."<sup>9</sup> (Emphasis added.)

## II. SUBSTANTIVE ALLEGATIONS

### A. Rule 12b-1 Plans

13. Section 12(b) of the Investment Company Act of 1940 (the "1940 Act") outlawed open-ended investment companies such as the Registrants from acting as their own broker-dealers, but authorized the SEC to prescribe rules and regulations governing the circumstances mutual funds may bear the expenses of selling, marketing and advertising shares. 15 U.S.C. § 80a-12(b). By 1980, the mutual fund industry prevailed on the SEC to make an important exception to this restriction, found in SEC Rule 12b-1. 17 C.F.R. § 270.12b-1.

14. Rule 12b-1 reflected a sharp change in SEC policy by permitting mutual funds to bear distribution-related expenses under *limited circumstances* provided certain conditions are met. The requirements of the Rule are triggered whenever a mutual fund engages in financing "any activity which is primarily intended to result in the sale" of its shares, including "advertising, **compensation of underwriters, dealers, and sales personnel**, the printing and

<sup>8</sup> See Confirmation Requirements and Point of Sale Disclosure Requirements for Transactions in Certain Mutual Funds and Other Securities, and Other Confirmation Requirement Amendments, and Amendments to the Registration Form for Mutual Funds, 69 Fed.Reg. 6438, at 6440 (Feb. 10, 2004).

<sup>9</sup> SEC Press Release, Edward Jones to Pay \$75 Million to Settle Revenue Sharing Charges, at <http://www.sec.gov/news/press/2004-177.htm>.





mailing of prospectuses to other than current shareholders, and the printing and mailing of sales literature.” 17 C.F.R. § 270.12b-1(a)(2) (emphasis added).

15. Rule 12b-1 allows distribution related expenses, *i.e.*, payments to Brokers, only pursuant to a “12b-1 Plan.” Any other payments to Brokers are outlawed by Section 12(b) of the 1940 Act. The 12b-1 Plan must be written, and describe “all material aspects of the proposed financing and distribution” of the mutual fund’s shares. 17 C.F.R. § 270.12b-1(b). Such Plan must be approved by a majority of the fund’s board of directors, including a majority of the disinterested directors. *Id.* at § 270.12b-1(b), (c). The Plan must also be approved by a majority of the fund’s outstanding voting shares. *Id.* The plan may be implemented or continued “only if the directors who vote to approve such implementation or continuation conclude, in the exercise of reasonable business judgment and in light of their fiduciary duties under state law and under sections 36(a) and (b)(15 U.S.C. 80a-35 (a) and (b)) of the [1940] Act, that there is a reasonable likelihood that the plan will benefit the company and its shareholders.” *Id.* at § 270.12b-1(e).

16. SEC Form N1-A sets forth the requirements for information that must be contained in offering prospectuses and statements of additional information. Form N1-A requires mutual fund companies to disclose in their prospectuses all fees paid pursuant to 12b-1 Plans, including a description of all principal activities for which payments are made, and an itemized list of amounts paid to Brokers. Form N1-A requires additional 12b-1 data to be supplied in a fund’s SAI. Copies of 12b-1 Plans must be exhibits to the registration statements.

17. Although Rule 12b-1 does not limit the amount that a fund’s shareholders may be charged under such a plan, the National Association of Securities Dealers (“NASD”, now the Financial Industry Regulatory Authority “FINRA”) has limited Rule 12b-1 fees to a maximum of **one quarter of 1%** of a fund’s average daily net assets per year. NASD Rule 2830(d)(5).

#### **B. The Registrants’ 12b-1 Plan**

18. The Registrants enacted a 12b-1 Plan that continued from year to year. During the relevant time period, the Registrants’ ratified the Plan on March 6, 2001, filed as an exhibit to the



1 Registrants' December 28, 2001 registration statement, and again on February 20, 2003 as  
 2 exhibit to the March 1, 2003 WAMU Funds' registration statement.

3 19. Pursuant to the 12b-1 Plan, the Registrants charged "12b-1 fees" against the assets  
 4 of all WAMU Funds. The amount and purpose of such 12b-1 fees were listed in the WAMU  
 5 Funds' Prospectuses and SAIs during all relevant times.

6 20. Pursuant to the Registrants' 12b-1 Plan, the WAMU Distributor paid Brokers a 25  
 7 BP, 12b-1 commission (the *maximum allowed* by NASD Rule 2830(d)(5)) on all sales of the  
 8 WAMU Funds, as well as a 25 BP residual 12b-1 commission on all past sales.

9 **C. The Advisor Paid Fee**

10 21. In addition to "12b-1 fees", Plaintiff and the Class had "management fees" and  
 11 separately, "other expenses" charged against their interests in the WAMU Funds. However,  
 12 neither the Registrants, nor the WAMU Advisor or Distributor could use such "management  
 13 fees" or "other expenses" for compensation to Brokers without being in violation of Section  
 14 12(b) of the 1940 Act, because such fees were not within the scope of the Registrants' 12b-1  
 15 Plan. In addition, since the Registrants 12b-1 commissions to Brokers were already 25BP, no  
 16 additional compensation could be paid to Brokers without being in violation of NASD Rule  
 17 2830(k).

18 22. However, as detailed below, the Registrants, with material assistance from the  
 19 WAMU Advisor and/or Distributor sought to, and did circumvent the limitations of Section  
 20 12(b) of the 1940 Act, and Rule 12b-1 promulgated thereunder, by making payments to Brokers  
 21 of 75 BP, *in addition to and separate* from the Registrants' 12b-1 Plan.

22 23. During the relevant time period there were 24 WAMU Funds issued by the  
 23 Registrants pursuant to joint Prospectuses. Registrants WM Trust I and WM Trust II issued 18 of  
 24 the 24 WAMU Funds;<sup>1</sup> Registrant WAMU Portfolio issued the remaining six (a subset of the

25  
 26 <sup>1</sup> The 18 WAMU Funds issued by WM Trust I and WM Trust II are: Money Market, Tax-  
 Exempt Money Market, U.S. Government Securities, Income, High Yield, Tax-Exempt Bond,





1 WAMU Funds denominated herein the "WAMU Portfolio Funds").<sup>2</sup> The WAMU Portfolio  
 2 Funds invest exclusively in securities of the other 18 WAMU Funds. Mutual funds that invest in  
 3 other mutual funds are commonly called "fund-of-funds".

4 24. Because the WAMU Portfolio Funds invest directly in other WAMU Funds, the  
 5 WAMU Advisor is essentially paid twice to do the same investment management. Specifically,  
 6 the Portfolio Funds' shareholders directly pay "management fees" (and other fees) to the  
 7 WAMU Advisor, and indirectly pay "management fees" against the underlying WAMU Funds  
 8 comprising the Portfolio. For the WAMU Portfolio Funds, the WAMU Advisor is permitted to  
 9 "double-dip" on fees, and investment in Portfolio Fund shares correspondingly increases  
 10 investment in all WAMU Funds.

11 25. The WAMU Advisor paid the undisclosed 75BP Advisor Paid Fee to Brokers as  
 12 described above for selling WAMU *Portfolio* Funds because such Funds generated the most  
 13 profit for the WAMU Advisor, Distributor and ultimately, control person defendant WAMU Inc.  
 14 However, the Portfolio Funds paid 65 BP to the WAMU Advisor in "management fees", 10BP  
 15 less than the Advisor Paid Fee. In essence, the WAMU Advisor improperly inflated its  
 16 "management fees" for *all* WAMU Funds as a scheme to channel investors into the WAMU  
 17 Portfolio Funds, increase assets under management, and therefore increase fee income. Plaintiffs  
 18 and the Class all paid inflated "management fees" to the Advisor, and received nothing for their  
 19 money.

20 26. Payment of the Advisor Paid Fee was not made pursuant to the Registrants'  
 21 March 6, 2001, or February 20, 2003 12b-1 Plan even though such Advisor Paid Fee fell within  
 22 the scope of Rule 12b-1. In addition, payment of the Advisor Paid Fee was not "approved by a

23 REIT, Small Cap Value, Equity Income, Growth & Income, West Coast Equity, Mid Cap Stock,  
 24 California Money, Short Term Income, California Municipal, California Insured Intermediate  
 Municipal, Growth, International Growth, Small Cap Growth.

25 <sup>2</sup> The six WAMU Portfolio Funds issued by WAMU Portfolio are: Conservative Growth,  
 26 Balanced, Conservative Balanced, and Flexible Income.



1 vote of at least a majority of the outstanding voting securities” of the WAMU Funds. *See* 17  
 2 C.F.R. § 270.12b-1(b)(1). **In short, the Advisor Paid Fee was illegal under Section 12(b) of**  
 3 **the 1940 Act.**

4 27. The WAMU Advisor is responsible for formulating the WAMU Funds’  
 5 investment policies, analyzing economic trends, monitoring each WAMU Fund’s investment  
 6 performance and reporting to the Registrants’ Board of Trustees. The Registrants authorized the  
 7 WAMU Advisor to debit “management fees” from WAMU Funds assets, ostensibly for  
 8 managing the day-to-day investment decisions of the WAMU Funds. However, the WAMU  
 9 Advisor was merely a conduit for passing the preponderant part of such “management fees” to  
 10 Brokers.

11 28. The WAMU Advisor owes fiduciary duties to Plaintiffs and the Class concerning  
 12 the receipt of compensation from the WAMU Funds. This fiduciary duty requires, at least, that  
 13 the WAMU Advisor not charge “management fees” to create a kickback slushfund that  
 14 compromises Brokers’ investment advice.

15 29. Plaintiffs and each of the Class members purchased shares or other ownership  
 16 units in the WAMU Funds pursuant to a registration statement and Prospectus. The registration  
 17 statements and Prospectuses pursuant to which Plaintiffs and the other Class members purchased  
 18 their shares or other ownership units in the WAMU Funds had effective dates of: March 1, 2000,  
 19 March 1, 2001, March 1, 2002, March 1, 2003, March 1, 2004, and/or March 1, 2005.

#### 20 **D. Misleading Statements and Omissions**

21 30. Prospectuses and their Statements of Additional Information (“SAI”s) are  
 22 required to disclose all material facts in order to provide investors with information that will  
 23 assist them in making an informed decision about whether to invest in a mutual fund. The law  
 24 requires that such disclosures be in straightforward and easy to understand language such that it  
 25 is readily comprehensible to the average investor.  
 26



31. In the March 1, 2000, March 1, 2001, March 1, 2002 and March 1, 2003 WAMU Funds Prospectuses, the Registrants made the following materially false and misleading statements:

The Distributor may, from time to time, pay to other dealers, in connection with retail sales or the distribution of shares of a Portfolio or Fund, material compensation in the form of merchandise or trips. Salespersons, including representatives of WM Financial Services, Inc. (a subsidiary of Washington Mutual), and any other person entitled to receive any compensation for selling or servicing Portfolio or Fund shares may receive different compensation with respect to one particular class of shares over another, and may receive additional compensation or other incentives for selling Portfolio or Fund shares.

(Emphasis added.)

32. Plaintiffs and/or members of the Class were entitled to and did receive the Registrants' March 1, 2000, March 1, 2001, March 1, 2002 and March 1, 2003 Prospectuses, each of which failed to disclose the following material facts:

a. WAMU Inc., the Registrants, the WAMU Advisor and WAMU Distributor had adopted the Steering Programs to incent Brokers to aggressively push the WAMU Funds on unsuspecting investors;

b. the Steering Programs described herein created insurmountable conflicts of interest between Registrants, the WAMU Advisor and WAMU Distributor and Brokers;

c. Brokers in fact received 75BP payments in the form of Advisor Paid Fees, and fees for placing the WAMU Funds on "preferred lists";

d. the Advisor Paid Fee was paid not only when Brokers made an initial sale of the WAMU Portfolio Funds, but was paid every year as a residual commission on past sales as well;

e. the "management fees" paid out of all WAMU Funds to the WAMU Advisor were the source of the Advisor Paid Fee;



f. the Advisor Paid Fee was **illegal** under Section 12(b) of the 1940 Act because not authorized or paid for pursuant to the Registrants' 12b-1 Plan (17 C.F.R. § 270.12b-1);

g. the Advisor Paid Fee was **three times** the allowable commission to Brokers under NASD Rule 2830(d)(5), and was in addition to the maximum 25 BP 12b-1 commission paid to Brokers;

h. Brokers selling the WAMU Funds were in fact paid valuable consideration for placing the WAMU Funds on "preferred lists";

i. Brokers selling the WAMU funds were in fact paid valuable compensation tied to the length of time Plaintiffs and the Class hold their WAMU Funds;

j. the Steering Programs created undisclosed incentives to push shares or other ownership units of the WAMU Funds to the exclusion of other investment alternatives;

k. the only investment advantage associated with WAMU Funds was almost always an advantage to the Registrants, the WAMU Advisor, WAMU Distributor and Brokers, all at the expense of Plaintiffs and the Class; and

l. pursuant to the wrongful Steering Programs described herein, defendants benefitted financially at the expense of Plaintiffs and members of the Class.

33. In the March 1, 2002, and March 1, 2003 WAMU Funds' Statement of Additional Information, filed with the registration statement containing the March 1, 2002, and March 1, 2003 WAMU Funds' Prospectuses, the Registrants made the following materially false and misleading statements:

**In determining to approve the most recent annual extension of the Trusts' investment advisory agreement with the Advisor (the "Advisory Agreement") ... the Trustees met over the course of the Trusts' last fiscal year with the relevant investment advisory personnel and considered information provided by the Advisor and the Sub-advisors relating to the education, experience and number of investment professionals and other personnel providing services under the Advisory Agreement and each Sub-advisory Agreement.**



\* \* \*

The Trustees evaluated the records of the Advisor and Sub-advisors with respect to regulatory compliance and compliance with the investment policies of the Portfolios and Funds. **The Trustees also evaluated the procedures of the Advisor and each Sub-advisor designed to fulfill their fiduciary duties to the Portfolios and Funds with respect to possible conflicts of interest, including the codes of ethics of the Advisor and each of the Sub-advisors (regulating the personal trading of its officers and employees (see "Codes of Ethics" above under "Management")) the procedures by which the Advisor allocates trades among its various investment advisory clients, the integrity of the systems in place to ensure compliance with the foregoing and the record of the Advisor and the Sub-advisors in these matters.**

\* \* \*

**Based on the foregoing, the Trustees concluded that the fees to be paid the Advisor and the Sub-advisors under the Advisory Agreement and each Sub-advisory Agreement were fair and reasonable, given the scope and quality of the services rendered by the Advisor and the Sub-advisors.**

34. Plaintiffs and/or members of the Class were entitled to and did receive the Registrants' March 1, 2002, and March 1, 2003 Prospectuses, each of which failed to disclose the following material facts:

a. The WAMU Advisor had material conflicts of interest with Plaintiffs and the Class as to its receipt of "management fees" because such fees were used to fund the Advisor Paid Fee;

b. The Registrants' "evaluat[i]on of the procedures of the Advisor ...designed to fulfill their fiduciary duties to the Portfolios and Funds with respect to possible conflicts of interest" was inadequate, non-existent and/or contrived;

c. The "fees paid to the Advisor ... under the Advisory agreement" were not fair nor reasonable because such fees were materially inflated due to the Advisors' payment of the illegal Advisor Paid Fee.

35. In the March 1, 2004 WAMU Funds SAI, the Registrants made statements identical to those described in paragraph 33 above, which were materially false and misleading



1 because they omitted the material facts described in paragraph 34 above. Plaintiffs and members  
2 of the Class were entitled to and did receive the Registrants' March 1, 2004 WAMU Funds SAI.

3 36. In the March 1, 2004 WAMU Funds Prospectus, the Registrants made the  
4 following materially false and misleading statements:

5 **WM Advisors may make payments, at its expense, to dealers or**  
6 **other financial intermediaries at an annual rate of up to 0.50%**  
**of the average daily net assets of shares of the Portfolios.[¶]**

7 The Distributor, at its expense, may provide additional  
8 compensation to dealers. These payments generally represent a  
9 percentage of a qualifying dealer's sales and/or the value of shares  
of the Portfolios or Funds within a qualifying dealer's client  
accounts. ... [¶]

10 Salespersons, including representatives of WM Financial Services,  
11 Inc. (a subsidiary of Washington Mutual), and any other person  
entitled to receive any compensation for selling or servicing  
12 Portfolio or Fund shares ... **may receive additional compensation**  
**or other incentives for selling Portfolio or Fund shares.**  
(emphasis added).

13 37. Plaintiffs and/or members of the Class were entitled to and did receive the  
14 Registrants' March 1, 2004 Prospectus, which failed to disclose the following material facts:

15 a. WAMU Inc., the Registrants, the WAMU Advisor and WAMU  
16 Distributor had adopted the Steering Programs to incent Brokers to aggressively push the  
17 WAMU Funds on unsuspecting investors;

18 b. the Steering Programs described herein created insurmountable conflicts  
19 of interest between Registrants, the WAMU Advisor, WAMU Distributor and Brokers;

20 c. the statement that Brokers received "up to 0.50% of the average daily net  
21 assets of shares of the Portfolios" was false as Brokers received **75BP** (0.75%) payments in the  
22 form of Advisor Paid Fees;

23 d. the Advisor Paid Fee was paid not only when Brokers made an initial sale  
24 of the WAMU Portfolio Funds, but was paid every year as a residual commission on past sales as  
25 well;  
26





e. the "management fees" paid out of all WAMU Funds to the WAMU Advisor were the source of the Advisor Paid Fee;

f. the Advisor Paid Fee was **illegal** under Section 12(b) of the 1940 Act because not authorized or paid for pursuant to the Registrants 12b-1 Plan (17 C.F.R. § 270.12b-1);

g. the Advisor Paid Fee was *three times* the allowable commission to Brokers under NASD Rule 2830(d)(5)), and was in addition to the maximum 25 BP 12b-1 commission paid to Brokers;

h. Brokers selling the WAMU Funds were in fact paid valuable consideration for placing the WAMU Funds on "preferred lists";

i. Brokers selling the WAMU funds were in fact paid valuable compensation tied to the length of time Plaintiffs and the Class hold their WAMU Funds;

j. the Steering Programs created undisclosed incentives to push shares or other ownership units of the WAMU Funds to the exclusion of other investment alternatives;

k. the only investment advantage associated with WAMU Funds was almost always an advantage to the Registrants, the WAMU Advisor, WAMU Distributor and Brokers, all at the expense of Plaintiffs and the Class; and

l. pursuant to the wrongful Steering Programs described herein, defendants benefitted financially at the expense of Plaintiffs and members of the Class.

38. The disclosures above lead a reasonable investor to believe, at best, that the Steering Programs *may or may not* exist, when in truth, the WAMU Advisor and/or WAMU Distributor had *already* entered into pre-determined, specific, and negotiated arrangements with Brokers to steer Plaintiffs and the Class into the WAMU Funds pursuant to the Advisor Paid Fee and "preferred list(s)". The Registrants had the duty to state *all* facts that were necessary to make their affirmative statements not misleading.

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39. The Registrants' March 1, 2005 prospectus filed with the SEC was unlike previous years. The Registrants' March, 1, 2005 registration contained separate prospectuses for the WAMU Portfolio Funds and other 18 WAMU Funds. The March 1, 2005 WAMU *Portfolio Funds*' prospectus contained in the December 30, 2004 filing stated:

OTHER PAYMENTS TO INTERMEDIARIES. WM ADVISORS ALSO OFFERS REVENUE SHARING PAYMENTS, REFERRED TO AS "ADVISOR PAID FEES" TO ALL FINANCIAL INTERMEDIARIES WITH ACTIVE SELLING AGREEMENTS WITH THE DISTRIBUTOR. THE ADVISOR PAID FEES ARE PAID AT AN ANNUAL RATE OF UP TO 0.50% OF THE AVERAGE NET ASSETS OF CLASS A AND CLASS B SHARES OF THE PORTFOLIOS SERVICED BY SUCH INTERMEDIARIES AND AN ANNUAL RATE OF UP TO 0.25% OF THE AVERAGE NET ASSETS OF CLASS C SHARES OF THE PORTFOLIOS SERVICED THROUGH SUCH INTERMEDIARIES. THESE PAYMENTS ARE MADE FROM WM ADVISORS' PROFITS AND MAY BE PASSED ON TO YOUR INVESTMENT REPRESENTATIVE AT THE DISCRETION OF HIS OR HER FINANCIAL INTERMEDIARY FIRM. THESE PAYMENTS MAY CREATE AN INCENTIVE FOR THE FINANCIAL INTERMEDIARIES AND/OR INVESTMENT REPRESENTATIVES TO RECOMMEND OR OFFER SHARES OF THE PORTFOLIOS OVER OTHER INVESTMENT ALTERNATIVES.

... In some cases, financial intermediaries will include the WM Group of Funds on a "preferred list." The Distributor's goals include making the Investment Representatives who interact with current and prospective investors and shareholders more knowledgeable about the WM Group of Funds so that they can provide suitable information and advice about the Portfolios and related investor services.

IF ONE MUTUAL FUND SPONSOR MAKES GREATER DISTRIBUTION ASSISTANCE PAYMENTS THAN ANOTHER, YOUR INVESTMENT REPRESENTATIVE AND HIS OR HER FINANCIAL INTERMEDIARY MAY HAVE AN INCENTIVE TO RECOMMEND ONE FUND COMPLEX OVER ANOTHER. SIMILARLY, IF YOUR INVESTMENT REPRESENTATIVE OR HIS OR HER FINANCIAL INTERMEDIARY RECEIVES MORE DISTRIBUTION ASSISTANCE FOR ONE SHARE CLASS VERSUS ANOTHER, THEN THEY MAY HAVE AN INCENTIVE TO RECOMMEND THAT CLASS. (emphasis added).



40. The Registrants' March 1, 2005 WAMU *Portfolio* Funds registration statement did not contain similar disclosures in the prospectus for the other 18 WAMU Funds. The registration statement failed to disclose the following material facts:

a. the Advisor Paid Fee was not made from the WAMU Advisor's profits as the inflated "management fees" paid out of all WAMU Funds were *actually* the source of the Advisor Paid Fee;

b. Brokers *actually* received 75 BP (not "UP TO 0.50%") in the form of Advisor Paid Fee for sales of *all* WAMU Portfolio Fund shares;

c. the Steering Programs in fact created insurmountable conflicts of interest between the Registrants, WAMU Advisor, WAMU Distributor and/or WMFS;

d. The Advisor Paid Fee is **illegal** under Section 12(b) of the 1940 Act because not authorized or paid for pursuant to the Registrants' 12b-1 Plan (17 C.F.R. § 270.12b-1);

e. The Registrants did not amend their 12b-1 Plan to account for payment of the Advisor Paid Fee;

f. the Advisor Paid Fee was *three times* the allowable commission to Brokers under NASD Rule 2830(d)(5)), and was in addition to the maximum 25 BP 12b-1 commission paid to Brokers;

41. The Registrants' March 1, 2005 Portfolio Funds prospectus did not actually or constructively put Plaintiffs or the Class on notice that the Registrants, the WAMU Advisor and Distributor were *in the past* engaged in the Steering Programs, as purported "disclosures" prior to March 1, 2005 were unclear and intended by the Registrants to be vague and ambiguous. The March 1, 2005 Portfolio Funds prospectus made no remedial disclosures of past activity, and contained no statement that its purported disclosures applied retroactively to amend previous prospectuses, and Plaintiffs and the Class reasonably believed that such purported disclosures represented a change in practice by the Registrants, the WAMU Advisor and Distributor.



42. The Registrants' registration statements after March 1, 2005, including the March 1, 2006 WAMU Funds registration statement, the Registrants made statements identical to those described in paragraph 39 above, which were materially false and misleading because they omitted the material facts described in paragraph 40 above. Plaintiffs and/or members of the Class were entitled to and did receive the Registrants' March 1, 2006 WAMU Funds prospectus(es). The Registrants continued the Advisor Paid Fee until the sale of the WAMU Funds (as well as the WAMU Advisor and WAMU Distributor) to the Principal Defendants. **However, while the Advisor Paid Fee was discontinued for new sales, it was "grandfathered" to Brokers with then existing arrangements to receive the Advisor Paid Fee.** Plaintiffs believe to be true and believe there will be substantial evidentiary basis that the Principal Investors Fund continues to pay such "grandfathered" Advisor Paid Fees for WAMU Fund Sales occurring up the WAMU Funds' sale to the Principal Defendants.

43. The Registrants, the WAMU Advisor and WAMU Distributor have not been the subject of news reports concerning their Steering Programs, nor been publicly reprimanded by the SEC, NASD/FINRA, or similar enforcement body for their concerted efforts to "steer" clients into the WAMU Funds. Accordingly, Plaintiffs and members of the Class did not have actual or constructive knowledge that the undisclosed activities complained of herein were taking place.

44. Plaintiffs are certain that, as the evidence develops, testimony from WMFS "Investment Professionals" (*i.e.*, "Salesmen") will confirm systematic inducements and rigid requirements that Salesmen neglect their duties to clients, and instead sell proprietary products laden with excessive and improper fees, commissions and other incentives.

#### **E. Scienter Allegations**

45. The Registrants the WAMU Advisor and Distributor, led by William Papesh, instituted the Advisor Paid Fee and "preferred list(s)" in 1997. Thereafter, in the Registrants' March 1998 prospectus, the Registrants' stated that the WAMU Distributor "may" pay



1 “additional compensation or other incentives for selling [WAMU Fund] shares.” As  
2 demonstrated above, the Registrants utilized essentially identical language through 2003, with  
3 minimal additional detail in 2004 until finally revealing in 2005 that WMFS and its Salesmen  
4 were in fact involved in the Steering Programs. The Registrants’ purported “disclosures” were  
5 not drafted in the abstract, but were created in response to the Steering Programs. The fact that  
6 the disclosures came after the Steering Programs were put in place, and evolution of the  
7 purported disclosures over time demonstrate that the Registrants intentionally sought to disclose  
8 as little information as possible about the Steering Programs.

9 46. The prohibitions on payments to Brokers by Section 12(b) of the 1940 Act, as  
10 well as the limitations on legitimate payments contained in SEC Rule 12b-1 are common  
11 knowledge in the mutual fund industry. The Registrants’ knowledge and/or reckless disregard of  
12 these limitations as they relate to the Advisor Paid Fee raises a strong inference of scienter.

13 47. The Registrants’ false statements that the “Advisor[] may make payments ... at an  
14 annual rate of up to 0.50% of the average daily net assets of shares of the Portfolios”, when the  
15 Registrants’ that such payment was actually 75 BP (0.75%), raises a strong inference of scienter.

16 48. The fact that the Registrants have the Steering Program(s) in place indicates that  
17 the Registrants know and believe such Programs drive and increase sales. By virtue of the  
18 descriptions of the Steering Program(s) contained in purported disclosures after March 1, 2005,  
19 defendants recognized the existence and nature of such Program(s) to be material to a reasonable  
20 investor. By virtue of the existence of the Steering Program(s), the Registrants’ directors knew  
21 about the already in place Advisor Paid Fee and “preferred list(s),” but drafted, authorized and  
22 thereafter left in place intentionally vague disclosures. The Steering Programs are not analogous  
23 to a financial result the existence or significance of which can be overlooked at the time of initial  
24 disclosure, but were instead a deliberate *marketing program* orchestrated and executed for the  
25 purpose of driving sales and increasing the WAMU Fund Companies’ revenue to the detriment  
26



1 of Plaintiff and the Class. Defendants cannot seriously contend they did not know what was  
2 going on when they crafted the relevant registration statements/prospectuses.

3 49. The fact that the Registrants' false statements in the March 1, 2005 prospectus,  
4 including *inter alia*, that WAMU Advisor and WAMU Distributor make payments "at its  
5 expense", when in reality those payments were derived directly from Plaintiffs and the Class'  
6 "management fees", and "other expenses", indicates that the Registrants' knew the programs  
7 were improper and were attempting to limit their exposure for engaging in the Shelf-Space  
8 Programs. The Registrants'

9 50. The Registrants', the WAMU Advisor and WAMU Distributor reaped huge  
10 profits from the Steering Programs and had an incentive to keep them secret. Increasing sales of  
11 the WAMU Funds infused more assets and therefore more fees to the WAMU Advisor and  
12 WAMU Distributor in the form of "management fees", loads, commissions, and 12b-1 fees. As  
13 the Registrants, the WAMU Advisor, WAMU Distributor and WMFS were all wholly owned  
14 entities of WAMU, Inc., they were working under a common scheme to increase profits for the  
15 common benefit of WAMU, Inc.

16 51. The Registrants disclosed the Steering Programs only after the illegal activities  
17 and scandals in the mutual fund industry were finally revealed to the public in 2004. The  
18 Registrants took these actions in a transparent and belated attempt to "clean up" their disclosures  
19 and minimize their potential liability. The Registrants therefore knew the Steering Programs  
20 regarding WAMU Fund sales were wrong and improper. In light of this conscious strategy, the  
21 failure to disclose the full extent of the Steering Programs even in the March 1, 2005 registration  
22 statement (and after) raises a strong inference of scienter.

23 52. While the Private Securities Litigation Reform Act ("PSLRA") (15 U.S.C. § 78)  
24 establishes a safe harbor to protect individuals and companies giving investment advice, the safe  
25 harbor does not apply here. The safe harbor provision does not apply where defendants, as here,  
26





1 knew at the time they were issuing statements that the statements contained false and misleading  
2 information and thus lacked any reasonable basis for making them.

3 **F. Damages Allegations**

4 53. A mutual fund company is very different from a traditional corporation, in that a  
5 mutual fund is a mere shell, a pool of assets consisting mostly of portfolio securities that belongs  
6 to the individual investors holding shares in the fund. The management of this asset pool is  
7 largely in the hands of an investment advisor, an independent entity which generally organizes  
8 the fund and provides it with investment advice, management services, office space and staff.

9 54. Unlike a traditional corporation, if those in charge of a mutual fund engage in  
10 wrongful activities negatively impacting the mutual fund, investors are directly impacted because  
11 a mutual fund is nothing more than a collection of the investors' money. When a cost is imposed  
12 on a traditional corporation, that cost impacts the book value of the corporation, but it does not  
13 necessarily impact the market price of the corporation's shares. Thus, there is no direct impact  
14 of those costs on the shareholder. In contrast, costs imposed on a mutual fund directly reduce the  
15 price at which the fund's shares are bought and sold, and do directly and immediately impact  
16 fund shareholders.

17 55. In addition, mutual fund shares do not trade at a price set by the public market.  
18 Rather, they are bought from, and sold back to the fund at net asset value ("NAV") per share in a  
19 method provided by statute. Opened ended mutual funds such as the WAMU Funds are required  
20 to issue redeemable securities, which are defined as "any security... under the terms of which the  
21 holder, upon its presentation to the issuer... is entitled... to receive approximately his  
22 proportionate share of the issuer's current net assets, or the cash equivalent thereof." 15 U.S.C. §  
23 80a-2(a)(32). The value of an investor's mutual fund is determined by subtracting a fund's  
24 liabilities from its assets to arrive at the fund's NAV. When paid, the undisclosed fees and  
25 charges at issue here immediately reduced that WAMU Funds' NAV per share, decreasing the  
26 amount for which Plaintiffs and the Class are entitled to redeem their shares.



1           56.     Although the various fees charged to mutual fund investors may seem small for  
2 each individual investor, mutual funds are long-term investment vehicles where compounded  
3 expenses have a significant impact on returns. Seemingly small, yet compounding, fees create  
4 drastic erosion on returns over time.

5           57.     Plaintiffs and the Class accepted, as an integral aspect of purchasing shares of the  
6 WAMU Funds, that they would be required to pay fees and expenses against their ownership  
7 interests therein, with the understanding that those charges were legitimate outlays for services  
8 that would benefit the Funds and contribute positively to their value. In truth, a significant  
9 portion of those expenses were not being used to provide the services promised, but rather to  
10 increase the profits of the Registrants, the WAMU Advisor, WAMU Distributor and Brokers by  
11 financing the Steering Programs challenged in this lawsuit.

12           58.     Plaintiffs and the Class assumed wrongly – as a direct and proximate result of the  
13 Registrants' non-disclosure and misrepresentation – that they would be paying out of their  
14 principal only fees for services that accrued to the benefit of Plaintiffs and members of the Class.  
15 In reality, Plaintiffs and the Class' principal was funding the Steering Programs which were  
16 being used to induce Plaintiffs and the Class members to hold their shares of the WAMU Funds,  
17 purchase additional shares of the WAMU Funds, and induce third parties to purchase shares of  
18 the WAMU Funds, all of which provided no benefit to Plaintiffs and the Class, and in fact  
19 actually dissipated the NAV of their assets in the WAMU Funds.

20           59.     The Steering Programs system of payments caused Plaintiffs and the Class an  
21 economic loss: absent those payments, Plaintiffs and the Class' total amount of fees, and thus the  
22 resulting diminution of their investment's NAV, would have been smaller.

23           60.     The Registrants did not adequately disclose the Steering Programs as such, nor  
24 did their disclosure state sufficient facts about such Programs for Plaintiffs and the Class to  
25 appreciate the dimension of the conflicts of interest inherent in them. Plaintiffs and members of  
26 the Class would not have purchased the WAMU Funds, nor paid the related commissions and

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1 fees used to finance the Steering Programs had the existence or nature of the Steering Programs  
2 been disclosed.

3 61. As a result of the Registrants' conduct alleged above, Plaintiffs and the Class have  
4 suffered damages. The damages suffered by Plaintiffs and the Class were a foreseeable  
5 consequence of WAMU's misleading statements, omissions and misconduct. By investing in the  
6 WAMU Funds, Plaintiffs and the Class received a return on their investment that was  
7 substantially less than the return on investment they would have received had the Registrants,  
8 WAMU Advisor and Distributor not engaged in the asset dissipating Steering Programs.

9 62. Plaintiffs and the Class have also suffered damages through commissions paid by  
10 them for their purchase of WAMU Funds shares. Had Plaintiffs and the Class known about the  
11 practices alleged above, they would not have paid such commissions. Plaintiffs and the Class'  
12 damages as a result of the commissions, fees and other charges paid for shares of the WAMU  
13 Funds were a foreseeable consequence of Defendants' false and misleading statements and  
14 omissions.

15 **G. Unity of Interest Between the Registrants, WAMU Advisor, WAMU Distributor,**  
16 **WMFS and WAMU, Inc.**

17 63. The Registrants, the WAMU Advisor, WAMU Distributor and WMFS are wholly  
18 owned entities of control person defendant WAMU Inc. The ownership, management and  
19 operation of such entities are inextricably intertwined giving such entities a unity of interest for  
20 purposes of liability as alleged herein.

21 64. The Registrants (WM Trust I, WM Trust II, and WAMU Portfolios) are governed  
22 by a common Board of Trustees that oversees the Registrants' activities. The officers of the  
23 Registrants are also officers and/or employees of the WAMU Advisor and/or WAMU  
24 Distributor.

25 65. For example, the Chairman of the Registrants' common Board of Trustees,  
26 William G. Papesh, is also the President, Chief Executive Officer ("CEO") and Director of the



WAMU Advisor and Distributor. Monte D. Calvin, who served as First Vice President ("VP"), Chief Financial Officer ("CFO") and Treasurer of the Registrants also served as First VP and Director of the WAMU Advisor and Distributor. Sandy Cavanaugh served as Senior VP to the Registrants and President, Director and Senior VP to the WAMU Distributor and Director of the WAMU Advisor. Alex Ghazanfari served as VP and Assistant Compliance Officer to the Registrants and VP and the Distributor as well as senior level positions at WMFS. Sharon L. Howells served as First VP of the Registrants and First VP, Secretary and Director of the WAMU Advisor and Distributor. Gary J. Pokrzywinski served as First VP and VP of the Registrants, and First VP of the WAMU Advisor. Stephen Q. Spencer served as First VP of the Registrants and First VP to the WAMU Advisor. John Q. West served as First VP, Secretary and Officer of the Registrants and First VP of the WAMU Advisors and Distributor. Randall L. Yokum served as Senior VP and First VP of the Registrants and Senior VP, Chief Investment Strategist and Director of the WAMU Advisor and Director of the Distributor.

#### **H. Successor Liability for the Principal Defendants**

66. On July 25, 2006, Principal and its subsidiary, Principal Management Corporation entered into an agreement with WAMU to acquire all of the outstanding stock of the following subsidiaries: WAMU Advisors, WAMU Distributor, and WM Shareholder Services, Inc. (the "Acquisition"). On August 11, 2006, the Registrants' common Board of Trustees approved the proposed Acquisition pursuant to which each of the WAMU Funds would combine with and into the corresponding separate acquiring fund of Principal Investors Fund (the "Acquiring Funds"). The Acquisition was approved by the WAMU Fund shareholders on December 15, 2006. By January 2007, the Acquisition was instantiated.

67. Under the Acquisition, (i) all the assets and certain stated liabilities of the WAMU Funds were transferred to its corresponding Acquiring Fund in exchange for Class A, Class B, Class C and Institutional Class ("Class I") shares of the Acquiring Fund; (ii) holders of Class A, Class B, Class C and Class I shares of the WAMU Funds received, respectively, that number of



1 Class A, Class B, Class C and Class I shares of the corresponding Acquiring Fund equal in value  
 2 at the time of the exchange to the value of the holder's WAMU Fund shares; and (iii) the WAMU  
 3 Funds were liquidated and dissolved.

4 68. The WAMU Advisor became investment advisor to the Principal Investors Fund.  
 5 WAMU Advisor was renamed defendant Edge Asset Management, Inc. ("Edge"), but remains  
 6 in Seattle and employs many of WAMU Advisors' officers and employees listed in paragraph 65,  
 7 above. The officers and employees of WAMU Funds Distributor formed the management and  
 8 staff of Principal Funds Distributor, the distributor to the Principal Investors Fund. Four  
 9 members of the Board of Trustees for the Registrants were elected to the board of Principal  
 10 Investors Fund. This group includes Richard Yancey, Daniel Pavelich, Kristianne Blake and  
 11 William G. Papesh.

12 69. The Principal defendants and the WAMU defendants thus share a unity of interest  
 13 with respect to the issues of this lawsuit and are the alter ego of their corresponding WAMU  
 14 entity. Such unity dictates that the Principal defendants be held jointly and severably liable for  
 15 the misconduct of the WAMU entities as alleged in this complaint. The Principal entities have  
 16 acquired the WAMU entities liabilities for the conduct as alleged in this lawsuit. The  
 17 Registrants' board members are now board members of Principal Investors Fund.

### 18 III. JURISDICTION AND VENUE

19 70. This Court has jurisdiction over the subject matter of this action pursuant to  
 20 section 22 of the Securities Act (15 U.S.C. § 77v); section 27 of the Exchange Act (15 U.S.C. §  
 21 78aa); and 28 U.S.C. §§ 1331, 1337.

22 71. Venue is proper in this District pursuant to Section 27 of the Exchange Act (15  
 23 U.S.C. § 78aa) and 28 U.S.C. § 1391. Substantial acts in furtherance of the alleged fraud,  
 24 including the preparation and dissemination of materially false and misleading information,  
 25 occurred within this District. Defendants WAMU Inc., WMFS, WM Advisors, and WM  
 26 Distributor, at all relevant times were headquartered in Seattle Washington.

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72. In connection with the acts alleged herein, Defendants directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to the mails, interstate telephone communications, and the facilities of the national securities markets.

#### IV. PARTIES

73. Plaintiff Lynne Poliquin is the daughter and attorney-in-fact for Plaintiff June Robinson. Plaintiff Poliquin has durable power of attorney for Plaintiff Robinson, which confers upon Plaintiff Poliquin all legal and beneficial rights of ownership and control in Plaintiff Robinson's WAMU Funds, including all rights to sue on her mother's behalf in the instant lawsuit. Plaintiffs are, and at all relevant times were, residents of the state of Washington. Plaintiff Poliquin made at least the following transactions in the WM Tax Exempt Bond Fund (CMTEX) issued by defendant WM Trust I: Purchased 3045.067 shares on 7/5/2005; Sold 3045.067 shares on 9/1/2005; Purchased 2518.703 shares on 11/1/2005; and Purchased 635.91 shares on 11/25/2005. Plaintiffs paid "management fees" debited from their shares of WAMU Funds that were diverted to fund the illegal Advisor Paid Fee and were damaged thereby.

74. Defendant Washington Mutual, Inc. ("WAMU, Inc.") is a financial services company organized as a Washington corporation, that at all times material maintained its corporate headquarters at Seattle, Washington. During the Class Period WAMU, Inc. was the sole owner of defendants WM Trust I, WM Trust II, WM Strategic Asset Management Portfolios, LLC, WM Financial Services, Inc., WM Funds Distributor, Inc., and WM Advisors, Inc.

75. Defendant WM Trust I is an open-end management investment company, organized as a Massachusetts business trust. WM Trust I issued the following WAMU Funds during the Class Period: Money Market, Tax-Exempt Money Market, U.S. Government Securities, Income, High Yield, Tax-Exempt Bond, REIT, Small Cap Value, Equity Income, Growth & Income, West Coast Equity, and Mid Cap Stock.





1           76. Defendant WM Trust II is an open-end management investment company  
2 organized as a Massachusetts business trust. WM Trust II issued the following WAMU Funds  
3 during the Class Period: California Money, Short Term Income, California Municipal, California  
4 Insured Intermediate Municipal, Growth, International Growth, and Small Cap Growth.

5           77. Defendant WM Strategic Asset Management Portfolios, LLC (the "WAMU  
6 Portfolio") is an open-end management investment company, organized as a Massachusetts  
7 limited liability company. WAMU Portfolios issued the following WAMU Funds during the  
8 Class Period: Strategic Growth, Conservative Growth, Balanced, Conservative Balanced, and  
9 Flexible Income.

10           78. Defendant WM Financial Services, Inc. ("WMFS") is a financial services  
11 company organized as a Washington corporation, that at all times material maintained its  
12 corporate headquarters at Seattle, Washington, and during the Class Period, acted as  
13 broker/dealer for WAMU and the WAMU Funds.

14           79. Defendant WM Advisors, Inc. ("WAMU Advisors") is a financial services  
15 company organized as a Washington corporation, and during the Class Period, acted as the  
16 investment advisor for the Registrants and the WAMU Funds.

17           80. Defendant WM Funds Distributor, Inc. ("WAMU Distributor") is a financial  
18 services company organized as a Washington corporation, and during the Class Period, acted as  
19 the distributor for the Registrants and the WAMU Funds.

20           81. Defendant Principal Financial Group, Inc., ("Principal") is a financial services  
21 company organized as a Delaware corporation, that at all times material maintained its corporate  
22 headquarters at Des Moines, Iowa. As of January 2007, Principal acquired and became the parent  
23 company of the WAMU Funds, now merged into Principal Investors Fund, Inc.

24           82. Defendant Principal Investors Fund, Inc. ("Principal Investors Fund") is the  
25 successor in interest to WM Trust I, WM Trust II, and WM Portfolios, registrants for the  
26 WAMU Funds. Principal Investors Fund is a management investment company organized as a

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1 Maryland corporation, that at all times material maintained its corporate headquarters at Des  
2 Moines, Iowa.

3 83. Defendant Edge Asset Management, Inc. ("Edge") is the successor in interest to  
4 some or all of the liabilities of WAMU Advisors complained of herein and is investment advisor  
5 to some or all of the former WAMU Funds in the Principal Investors Funds. Edge is a financial  
6 services company organized as a Washington corporation, that at all times material maintained  
7 its corporate headquarters at Seattle, Washington.

8 84. Defendant Principal Funds Distributor, Inc. ("Principal Distributor") is the  
9 successor in interest to some or all of the liabilities of the WAMU Distributor as complained of  
10 herein, and is the distributor for some or all of the former WAMU Funds in the Principal  
11 Investors Funds. Principal Distributor is organized as a Washington corporation, with its  
12 principal place of business in Sacramento County California.

13 85. Principal, Principal Investors Fund, Principal Distributor, and Edge are  
14 collectively referred to herein as the "Principal Defendants."

## 15 V. CLASS ALLEGATIONS

16 86. Plaintiffs bring this action as a class-action pursuant to Federal Rules of Civil  
17 Procedure 23 on behalf of a Class consisting of: All persons or entities that purchased or  
18 otherwise acquired shares, units or like interests in any of the WAMU Funds (including through  
19 the reinvestment of Fund dividends) within the applicable statute of limitations, or such other  
20 class, classes or periods of time as the Court deems appropriate. Excluded from the Class are  
21 defendants herein and any person, firm, trust, corporation, or other entity related to or affiliated  
22 with any defendant.

23 87. The members of the Class are so numerous that joinder of all members is  
24 impracticable. While the exact number of Class members is unknown to Plaintiffs at this time  
25 and can only be ascertained through appropriate discovery, Plaintiffs believe that there are  
26 thousands of members in the proposed Class. Record owners and other members of the Class

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1 may be identified from records maintained by defendants, and may be notified of the pendency  
2 of this action by mail, using the form of notice similar to that customarily used in securities class  
3 actions.

4 88. Plaintiffs' claims are typical of the claims of the members of the Class as all  
5 members of the Class are similarly affected by Defendants' wrongful conduct complained of  
6 herein in violation of federal law. Plaintiffs do not have interests adverse to the Class.

7 89. Plaintiffs will fairly and adequately protect the interests of the members of the  
8 Class and has retained counsel competent and experienced in class action and securities  
9 litigation.

10 90. Common questions of law and fact exist as to all members of the Class and  
11 predominate over any questions wholly affecting individual members of the Class. Among the  
12 questions of law and fact common to the Class are:

13 (a) whether statements made by the Registrants to the investing public before, at  
14 least, March 1, 2005 concerning the existence of, source of funding for, purpose and effect of  
15 the Steering Programs misstated, omitted or concealed material facts;

16 (b) whether the Registrants' false and misleading statements and omissions are  
17 material as a matter of law;

18 (c) whether Plaintiffs and the Class' WAMU Funds assets were dissipated by the  
19 Steering Programs and the fees deducted therefore;

20 (d) whether the Registrants acted with scienter when issuing the false and misleading  
21 statements and omissions;

22 (e) whether the Steering Programs created insurmountable conflict(s) of interest  
23 for the Registrants, the WAMU Advisor, WAMU Distributor and/or Brokers;

24 (f) whether the federal securities laws were violated by defendants' acts as alleged  
25 herein; and  
26

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1 (g) to what extent Plaintiff and members of the Class have sustained damages and  
2 the proper measure of damages.

3 91. A class action is superior to all other available methods for the fair and efficient  
4 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as  
5 the damages suffered by individual Class members may be relatively small, the expense and  
6 burden of individual litigation make it virtually impossible for members of the Class to  
7 individually redress the wrongs done to them. There will be no difficulty in the management of  
8 this action as a class action.

9 92. Defendants have acted on grounds generally applicable to the entire Class with  
10 respect to the matters complained of herein, thereby making appropriate the relief sought herein  
11 with respect to the Class as a whole.

12 **COUNT I**  
13 **Against the Registrants and Principal Investors Fund**  
14 **For Violations Of Section 11 Of The Securities Act**

15 93. Plaintiffs repeat and re-allege each and every allegation contained above as if  
16 fully set forth herein, except that for purposes of this claim, Plaintiffs expressly exclude and  
17 disclaim any allegation that could be construed as alleging fraud or intentional or reckless  
18 misconduct.

19 94. This claim is brought pursuant to Section 11 of the Securities Act (15 U.S.C. §  
20 77k) against the Registrants on behalf of Plaintiffs and the Class.

21 95. The Registrants were the registrant(s), and Principal Investors Fund is the  
22 successor in interest to the Registrants, for one or more of the respective WAMU Funds' shares  
23 sold to Plaintiffs and the Class. The Registrants issued, caused to be issued and participated in  
24 the issuance of the materially false and misleading written statements and/or omissions of  
25 material fact that were contained in the respective Prospectus(es) and are statutorily liable under  
26 Section 11.



96. Prior to purchasing ownership units of the WAMU Funds, Plaintiffs were provided the appropriate Prospectus(es) and, similarly, prior to purchasing the ownership units of each of the other WAMU Funds, all Class members likewise received the appropriate Prospectus(es). Plaintiffs and other Class members purchased shares of the WAMU Funds traceable to the false and misleading Prospectus(es).

97. As set forth above, the statements contained in the Prospectuses were materially false and misleading for a number of reasons, including that they failed to disclose, and actively concealed, that it was the practice of the Registrants, the WAMU Advisor and Distributor to reward Brokers for selling the WAMU Funds, while discouraging selling products offered by competitors not on the "preferred list" or otherwise participating in the Steering Programs. The Prospectuses failed to disclose and misrepresented material and adverse facts as described in paragraphs 31 through 42 of this complaint.

98. Plaintiffs and the Class have sustained damages as a result of the Registrants' violations.

99. At the time they purchased the WAMU Funds shares traceable to the defective Prospectuses, Plaintiffs and the Class were without knowledge of the facts concerning the false and misleading statements or omissions alleged herein and could not reasonably have possessed such knowledge.

100. This claim was brought within the applicable statute of limitations.

**COUNT II**  
**Against the Registrants, the WAMU Distributor, WMFS and Principal Defendants**  
**For Violations of Section 12(a) Of The Securities Act**

101. Plaintiffs repeat and re-allege each and every allegation contained above as if fully set forth herein, except that for purposes of this claim, Plaintiffs expressly exclude and disclaim any allegation that could be construed as alleging fraud or intentional or reckless misconduct.

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102. This claim is brought pursuant to Section 12(a) of the Securities Act (15 U.S.C. § 77l(a)), against the Registrants, the WAMU Distributor and WMFS, for their failure to disclose the Steering Programs that created insurmountable conflicts of interest and the Principal Defendants as successors in interest to the Registrants, the WAMU Distributor and WMFS.

103. The Registrants, the WAMU Distributor and WMFS, were the "offeror" and/or "seller", and the Principal Defendants are the successor in interest to the "offeror" and/or "seller", within the meaning of the Securities Act, for one or more of the respective WAMU Fund shares sold to Plaintiffs and the Class members because they either: (a) transfer title to shares of the WAMU Funds to members of the Class; (b) transfer title to shares of the WAMU Funds to the WAMU Funds distributors that in turn sold shares of the WAMU Funds as agent for the Registrants; and/or (c) solicited the purchase of shares in the WAMU Funds by members of the Class, motivated in part by payment of the monies pursuant to the Steering Programs to the detriment of Plaintiffs and the Class.

104. Before at least March 1, 2005, the Registrants, the WAMU Distributor and WMFS failed to disclose the existence of the Steering Programs payments Brokers received in exchange for pushing clients into the WAMU Funds. These incentives created insurmountable conflicts of interest that were never disclosed to Plaintiffs and the Class.

105. The WAMU Fund Companies also caused to be issued to members of the Class the Prospectuses that failed to disclose that fees, commissions, and other charges from the purchase and maintenance of the WAMU Funds were used to pay Brokers for directing Plaintiffs and the Class into the WAMU Funds, and the existence of the conflicts of interest described herein for Brokers including WMFS and its Salesmen.

106. As set forth above, when they became effective, the WAMU Funds' Prospectuses were misleading as they omitted or insufficiently disclosed the material facts alleged in, at least, paragraphs 31 through 42 of this complaint.





107. Plaintiffs and the other members of the Class have sustained damages as a result of the Registrants, WAMU Distributor, WMFS and Principal Defendants' violations.

108. At the time they purchased the WAMU Fund shares traceable to the defective Prospectuses, Plaintiffs and the Class were without knowledge of the facts concerning the material misleading statements and omissions alleged herein and could not reasonably have possessed such knowledge.

109. This claim was brought within the applicable statute of limitations.

**COUNT III**  
**Against WAMU, Inc. and WAMU Advisor**  
**for Violation of Section 15 of the Securities Act**

110. Plaintiffs repeat and re-allege each and every allegation contained above as if fully set forth herein, except that for purposes of this claim, Plaintiffs expressly exclude and disclaim any allegation that could be construed as alleging fraud or intentional or reckless misconduct.

111. This claim is brought pursuant to Section 15 of the Securities Act (15 U.S.C. § 77o), against WAMU, Inc. and WAMU Advisor as control persons of the Registrants, the WAMU Distributor and WMFS. It is appropriate to treat these defendants as a group for pleading purposes and presume that the false, misleading, and incomplete information complained about herein are the collective actions of WAMU, Inc., the WAMU Advisor, Registrants, WAMU Distributor and WMFS.

112. The Registrants violated Section 11 of the Securities Act. And the Registrants, the WAMU Distributor and WMFS violated Section 12(a) of the Securities Act by their acts and omissions as alleged in this complaint. By virtue of their positions as controlling persons, WAMU, Inc., and the WAMU Advisor are liable pursuant to Section 15 of the Securities Act.

113. WAMU, Inc. and the WAMU Advisor are and were "control person(s)" of the Registrants, the WAMU Distributor and WMFS within the meaning of Section 15 of the Securities Act, by virtue of their positions of operational control and/or stock ownership in the

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1 Registrants, the WAMU Distributor and WMFS. At the time the Registrants, the WAMU  
 2 Distributor and WMFS sold one or more shares of the WAMU Funds to Plaintiffs and the Class  
 3 – by virtue of their positions of control and authority over the Registrants, the WAMU  
 4 Distributor and WMFS – WAMU, Inc. and the WAMU Advisor, directly and indirectly, had the  
 5 power, authority, influence and control, and exercised same, over the decision making and  
 6 actions of the Registrants, the WAMU Distributor and WMFS to engage in the wrongful conduct  
 7 complained of herein. WAMU, Inc. and the WAMU Advisor had the ability to prevent the  
 8 issuance of the statements alleged to be false and misleading or could have caused such  
 9 statements to be corrected.

10 114. In particular, WAMU, Inc. had direct supervisory involvement in the operations  
 11 of the Registrants, the WAMU Distributor and WMFS by virtue of total stock ownership in those  
 12 defendants, and is presumed to have had the power to control or influence the particular acts,  
 13 misleading statements, and omissions giving rise to violations of the Securities Act as alleged  
 14 herein, and to have exercised same.

15 115. As a direct and proximate result of WAMU, Inc. and the WAMU Advisor's  
 16 wrongful conduct, Plaintiffs and the Class suffered damages in connection with their purchases  
 17 and/or sales of interests in the WAMU Funds before, at least, March 1, 2005.

18 **COUNT IV**  
 19 **Violation Of Section 10(b) Of The Exchange Act And Rule 10b-5 Promulgated Thereunder**  
**Against the Registrants and Principal Investors Fund**

20 116. Plaintiffs repeat and re-allege each and every allegation contained above as if  
 21 fully set forth herein, explicitly excepting and disclaiming claims brought pursuant to the  
 22 Securities Act.

23 117. This claim is brought against the Registrants and the Principal Investors Fund  
 24 pursuant to Section 10(b) of the Exchange Act (15 U.S.C. § 78j(b)) and Rule 10b-5 (17 C.F.R. §  
 25 240.10b-5) promulgated thereunder. The Registrants are sued as primary violators of Section  
 26 10(b) and Principal Investors Fund as successor in interest to the Registrants.

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1 118. During the Class Period, the Registrants carried out a plan, scheme and course of  
2 conduct which was intended to, and before, at least, March 1, 2005 did, deceive the investing  
3 public, including Plaintiffs and the Class as alleged herein, and caused Plaintiffs and the Class to  
4 purchase WAMU Funds containing improper fees, commissions and other charges, and to  
5 otherwise suffer damages. In furtherance of this unlawful scheme, plan and course of conduct,  
6 the Registrants took the actions set forth herein.

7 119. The Registrants (i) employed devices, schemes, and artifices to defraud; (ii) made  
8 untrue or misleading statements of material fact and/or omitted to state material facts necessary  
9 to make the statements not misleading; and (iii) engaged in acts, practices, and a course of  
10 conduct which operated as a fraud and deceit upon purchasers of the WAMU Funds, including  
11 Plaintiffs and the Class, in an effort to enrich themselves through undisclosed manipulative  
12 tactics by which they wrongly dissipated the assets of the WAMU Funds in violation of Section  
13 10(b) of the Exchange Act and Rule 10b-5. The Registrants are sued as primary participants of  
14 the wrongful and illegal conduct and scheme charged herein, and Principal Investors Fund is  
15 sued as the successor in interest to the Registrants.

16 120. The Registrants, individually and in concert, directly and indirectly, by the use,  
17 means or instrumentalities of interstate commerce and/or of the mails, engaged and participated  
18 in a continuous course of conduct to conceal the adverse material information about the improper  
19 Steering Programs the inherent conflicts of interest alleged herein.

20 121. The Registrants employed devices and artifices to defraud and engaged in a  
21 course of conduct and scheme as alleged herein to unlawfully manipulate and profit from  
22 increased sales and/or commissions, fees or other charges paid to them as a result of its  
23 undisclosed Steering Programs described above and thereby engaged in transactions, practices  
24 and a course of conduct which operated as a fraud and deceit upon Plaintiffs and the Class.

25 122. The Registrants had actual knowledge of the misrepresentations and omissions of  
26 material facts set forth above, or acted with reckless disregard for the truth in that they failed to

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ascertain and to disclose such facts, even though the facts were available to them. The Registrants' material misleading statements and omissions were done knowingly or recklessly and for the purpose and effect of concealing the truth.

123. As a result of dissemination of the materially false and misleading information and failure to disclose material facts, as set forth in paragraphs 31 through 42 above, the NAVs for the WAMU Funds were diminished before, at least, March 1, 2005. In ignorance of the fact that NAVs for the WAMU Funds were diminished, and relying directly or indirectly on the false and misleading statements made by the Registrants, or upon the purported integrity of WAMU, Inc., the Registrants, the WAMU Advisor, WAMU Distributor and WMFS, and/or on the public absence of material adverse information that was known to or recklessly disregarded by the Registrants but not disclosed in public statements by the Registrants before, at least, March 1, 2005, Plaintiffs and the Class paid fees, commissions, loads, and other charges to the Registrants, the WAMU Advisor, WAMU Distributor and WMFS during the Class Period for the Steering Programs and were damaged thereby.

124. By virtue of the foregoing, the Registrants and Principal Investors Fund have violated Section 10(b) of the Exchange Act (15 U.S.C. § 78j(b)) and Rule 10b-5 (17 C.F.R. § 240.10b-5) promulgated thereunder.

125. As a direct and proximate result of the Registrants and Principal Investors Fund's wrongful conduct, Plaintiffs and the Class suffered damages in connection with their respective purchases and/or sales of WAMU Funds shares before, at least March 1, 2005.

126. This claim was brought within the applicable statute of limitations.

**COUNT V**  
**Violation Of Section 10(b) Of The Exchange Act And Rule 10b-10**  
**Promulgated Thereunder Against WMFS**

127. Plaintiffs repeat and re-allege each and every allegation contained above as if fully set forth herein, explicitly excepting and disclaiming claims brought pursuant to the Securities Act.

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1           128. This claim is brought against WMFS for violation of Section 10(b) of the  
2 Exchange Act (15 U.S.C. § 78j(b)) and Rule 10b-10 (17 C.F.R. § 240.10b-10) promulgated  
3 thereunder.

4           129. Before, at least, March 1, 2005, WMFS and its Salesmen effected transactions in  
5 the WAMU Funds for or with the account of Plaintiffs and members of the Class, and/or induced  
6 Plaintiffs and members of the Class to purchase the WAMU Funds.

7           130. At or before completion of Class members' purchases of shares, units or other like  
8 interests in the WAMU Funds, WMFS failed to disclose the source and amount of remuneration  
9 WMFS and its Salesmen received from the WAMU Advisor and WAMU Distributor in  
10 connection with Class members' purchases of the WAMU Funds, as required by Rule 10b-10 (17  
11 C.F.R. § 240.10b-10), promulgated under Section 10(b) of the Exchange Act.

12           131. WMFS and its Salesmen knew of the limitation on broker commissions found in  
13 NASD Rule 2830(e), yet accepted the Advisor Paid Fee.

14           132. The WAMU Advisor and WAMU Distributor's payment of such remuneration  
15 created insurmountable and undisclosed conflicts of interest for WMFS and its Salesmen.  
16 Plaintiffs and members of the Class were thus ignorant of the source and amount of remuneration  
17 WMFS and its Salesman received from the WAMU Advisor and WAMU Distributor and of the  
18 resulting conflicts of interest therein. Had Plaintiffs and members of the Class known of the  
19 source and amount of such remuneration and the resulting conflicts of interest, they would not  
20 have held, purchased or otherwise acquired shares of the WAMU Funds, and would not have  
21 paid any loads, commissions or fees paid as a result of their acquisitions of the WAMU Funds,  
22 and would not have paid the fees or costs associated with ownership of the WAMU Funds.

23           133. As a direct and proximate result of WMFS's violations of Rule 10b-10, Plaintiffs  
24 and members of the Class suffered damages in connection with their respective purchases and/or  
25 sales of the WAMU Funds shares before, at least March 1, 2005.  
26



134. At the time they purchased and/or sold the WAMU Funds shares traceable to the defective disclosures, Class members were without knowledge of the facts concerning the material false and misleading statements and omissions alleged herein and could not reasonably have possessed such knowledge.

135. This claim was brought within the applicable statute of limitations.

**COUNT VI**  
**Against WAMU, Inc., the WAMU Advisor, WAMU Distributor**  
**for Violations of Section 20(a) of the Exchange Act**

136. Plaintiffs repeat and re-allege each and every allegation contained above as if fully set forth herein, explicitly excepting and disclaiming claims brought pursuant to the Securities Act.

137. This claim is brought pursuant to Section 20(a) of the Exchange Act (15 U.S.C. § 78t), against WAMU, Inc. as a control person of the Registrants and WMFS, and against the WAMU Advisor and WAMU Distributor as control persons of the Registrants. It is appropriate to treat these defendants as a group for pleading purposes and presume that the false, misleading, and incomplete information complained about herein are the collective actions of the Registrants, WMFS, the WAMU Advisor, WAMU Distributor, and WAMU, Inc.

138. The Registrants violated Section 10(b) of the Exchange Act (15 U.S.C. § 78j(b)) and Rule 10b-5 (17 C.F.R. § 240.10b-5) by their acts, material false and misleading statements and omissions as alleged in this complaint. By virtue of their positions as controlling persons, WAMU, Inc. is liable pursuant to Section 20(a) of the Exchange Act.

139. WMFS violated Section 10(b) of the Exchange Act (15 U.S.C. § 78j(b)) and Rule 10b-10 (17 C.F.R. § 240.10b-10) by failing to disclose the source and amount of remuneration WMFS and its Salesmen received from the WAMU Advisor and WAMU Distributor in connection with Class members' purchases of the WAMU Funds, as alleged above. By virtue of their positions as controlling persons, WAMU, Inc., the WAMU Advisor, and WAMU Distributor are liable pursuant to Section 20(a) of the Exchange Act.

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140. WAMU, Inc., the WAMU Advisor, and WAMU Distributor were "control persons" of the Registrants and WMFS within the meaning of Section 20 of the Exchange Act, by virtue of their positions of operational control and/or complete stock ownership in the Registrants and WMFS. At the time that the Registrants issued the Prospectuses, and separately, at the time WMFS sold one or more shares of the WAMU Funds to Plaintiffs and the Class – by virtue of their positions of control and authority over the Registrants and WMFS – WAMU, Inc., the WAMU Advisor, and WAMU Distributor directly and indirectly, had the power, authority, influence and control, and exercised same, over the decision making and actions of the Registrants and WMFS to engage in the wrongful conduct complained of herein. WAMU, Inc., the WAMU Advisor, and WAMU Distributor had the ability to prevent the issuance of the statements alleged to be false and misleading registration statements or could have caused such statements to be corrected.

141. In particular, WAMU, Inc., the WAMU Advisor, and WAMU Distributor had direct supervisory involvement in the operations of the Registrants and WMFS, and are presumed to have had the power to control or influence the particular acts, misleading statements, and omissions giving rise to violations of the Exchange Act as alleged herein, and to have exercised same.

142. As a direct and proximate result of WAMU, Inc., the WAMU Advisor, and WAMU Distributor's wrongful conduct, Plaintiffs and the Class suffered damages in connection with their purchases and/or sales of the WAMU Funds during the Class Period.

### **JURY TRIAL DEMAND**

143. Pursuant to Rule 38(b) of the Federal Rules of Civil Procedure, Plaintiffs demand a trial by jury of all of the claims asserted in this Complaint so triable.

### **PRAYER**

WHEREFORE, Plaintiffs and the Class pray for relief and judgement as follows:



1           1.       Judgment declaring that this action is properly maintained as a class action and  
2 certifying Plaintiffs as Class representatives under Rule 23 of the Federal Rules of Civil  
3 Procedure;

4           2.       Awarding compensatory damages in favor of Plaintiffs and the Class against  
5 all defendants, jointly and severally, for all damages sustained as a result of defendants'  
6 wrongdoing, in an amount to be proven at trial, including interest thereon;

7           3.       Awarding Plaintiffs and the Class rescission of their contracts with the  
8 defendants, including recovery of all fees which would otherwise apply and recovery of all fees  
9 paid to the defendants pursuant to such agreements;

10          4.       Awarding Plaintiffs and the Class their reasonable costs and expenses incurred  
11 in this action, including counsel fees and expert fees; and

12          5.       Such other and further relief as this Court may deem just and proper.  
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1 DATED: August 20, 2008

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17 Attorneys for Plaintiffs  
18 Lynne Poliquin as attorney in fact for  
19 June Robinson  
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## FINKELSTEIN &amp; KRINSK LLP

## WM GROUP OF FUNDS

CERTIFICATION OF NAMED PLAINTIFF  
PURSUANT TO FEDERAL SECURITIES LAWS

I, Lynne Poliquin, as attorney in fact for June Robinson ("Plaintiffs"), declare as to the claims asserted under the federal securities laws, that I have reviewed the Complaint and authorized its filing.

1. Plaintiffs did not purchase the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action.

2. Plaintiffs are willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.

3. Plaintiffs' transactions in the securities that are the subject of this action during the Class Period are, at least, as follows:

Fund Series	Quantity Purchased/(Sold)	Amount	Date
WM Tax Exempt Bond (CMTEX)	3045.067	\$25,000.00	7/5/2005
CMTEX	(3045.067)	\$23,873.33	9/1/2005
CMTEX	2518.703	\$20,200.00	11/1/2005
CMTEX	635.91	\$5,100.00	11/25/2005

\*If more purchases and/or sales were made, please attach a separate sheet of paper.\*

4. Plaintiffs have not sought to serve or served as representative parties for a class in a class action filed under the Securities Exchange Act of 1934 or Securities Act of 1933 within the last three years.

5. Plaintiffs will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiffs' *pro rata* share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 20th day of August, 2008, at Indio, California.

*June Robinson by Lynne Poliquin, her attorney-in-fact*  
 Lynne Poliquin as attorney in fact for  
 June Robinson